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UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

January 13, 1983

MEMORANDUM FOR: Henry S. Rowen
Chairman
National Intelligence Council
Central Intelligence Agency

SUBJECT: CIA Analytical Support for East-West
Study Program

As you know, the program of East-West economic studies described in the "Summary of Conclusions" is now well underway, with SIG-IEP approval having been granted for the terms of reference and implementation plans in each area. In energy, the study terms of reference have also been agreed to by Summit Seven countries, and the IEA/OECD Combined Energy Secretariat has begun work on the energy requirements and alternatives study itself.

The USG's success in advancing these studies toward the goals set in NSDD 66 will depend in large part upon our effective use of analytical support provided by the CIA. For this purpose I hope that the CIA can continue and expand upon the excellent work it is now doing in support of our efforts in each of these areas. This work will serve as a check on the work done by national bureaucracies, CoCom, the NATO Economic Committee, the OECD, and the IEA, and, as appropriate, permit us to correct or supplement these analyses.

In the area of the overall strategic and military implications of East-West economic relations, we have identified the following questions where additional CIA analysis will be a key element in supporting the study process:

- 1) What is the elasticity of East-West trade with respect to credit or other subsidies?
- 2) What are the major economic benefits that the Soviets derive from their trade with the West? Do we have good data on the magnitude of these benefits and the sectors in which they are concentrated? How and to what extent does the USSR use economic relations with the West to expand its military power?

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3) What are the most important infrastructure elements that support -- but are not a direct part of -- Soviet military production? Has Western trade been important in these areas?

4) Is there any empirical evidence, beyond the infamous 1972-73 grain deal, that the Soviets have exploited their monopsonist or near-monopsonist position vis-a-vis their more numerous Western trading partners? ✓

5) Among what uses could the Soviets be expected to allocate their foreign exchange earnings for various levels of those earnings?

In support of the energy requirements and alternatives study, we see the following particular requirements:

1) A "shadow study" based on the terms of reference for the East-West energy dependence and alternatives study.

2) A related "shadow study" on the physical characteristics of the European natural gas distribution grid and the physical constraints on responses to IEA-stipulated disruption scenarios.

3) Continued CIA export help to advise the IEA Secretariat on gas supply modelling techniques and to monitor the progress of the IEA work. In particular, we would hope that [] who participated in the most recent gas experts' group meeting in [] would be available to attend future such meetings.

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4) Key experts may also be needed for travel and consultations in other OECD capital cities in the coming months, depending on the course of the energy requirements study.

5) Further CIA analysis of Soviet gas export capabilities and pricing strategies will be needed for our guidance and for exchange with affected countries, in particular Norway and the Netherlands, (i.e., whether the Soviets could exploit their enhanced natural gas production and transmission facilities to discourage the future development of Western European supplies).

6) Whether the Soviets view and/or use energy as a strategic resource in international relations.

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As mentioned in the SIG-IEP meeting, an additional area in which your work could support the negotiating process is a country-by-country determination of the responses that our allies are likely to make to our initial proposals, and what arguments we could make that would most effectively counter these arguments.

Also, as you may be aware, we are assuming the availability for temporary detail to NATO of one economic expert who can work with the NATO international staff on the security implications of East-West economic relations. As in the past, we would also appreciate the participation from time to time of a senior-level economist to reinforce the U.S. NATO mission for Economic Committee meetings.

Finally, in addition to the analytical work, it will be vital to set up procedures for rapid "sanitization" of CIA findings so that we may exchange substantive views with our allies, both within the various study fora as well as bilaterally.

I very much appreciate your support in this matter.


Allen Wallis

cc: Mr. McCormack
Mr. Niles
Mr. Bailey
Mr. Ikle
Mr. Olmer
Mr. Bradley
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Drafted:E-EHurwitz:EB/ECC-CRies:jr

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